Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 3 Agenda

Chair, Senator Denise Moreno Ducheny
Senator George C. Runner
Senator Tom Torlakson

Thursday, April 28, 2005
(Upon Adjournment)
John L. Burton Hearing Room (4203)
Consultant, Anastasia Dodson

Vote-Only Agenda

Discussion Agenda

Please Note: Only those items and issues contained in this agenda will be discussed at this hearing. Issues pertaining to these items may be reviewed again. Please see the Senate File for dates and times of subsequent hearings.

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Vote-Only Agenda

4260 Department of Health Services

Vote-Only Issue 1: Medical Marijuana Identification Card Program

Description: The budget proposes an increase of $489,000 (Medical Marijuana Program Fund) to continue with implementation of SB 320 (Vasconcellos), Statutes of 2003, whose purpose is to establish and maintain a voluntary medical marijuana identification card and registry program. If this increase is approved, a total of $1.2 million (Medical Marijuana Program Fund) would be budgeted for 2005-06. Current year expenditures are anticipated to be about $1.1 million (Medical Marijuana Program Fund).

Of the $489,000 requested, $355,000 is related to card production (about $3 per card), $98,000 is for communication functions and the remaining $36,000 is for various activities, such as internet access and supplies.

Recommendation: It is recommended to approve as budgeted.

Vote-Only Issue 2: Proposition 50—Request for CA Bay-Delta Authority

Description: The DHS proposes an increase of $125,000 (Proposition 50 Bond Funds) to fund a position at the California Bay –Delta Authority (CBDA) provided through an interagency agreement. The DHS states that the CBDA subcontracts with the Santa Clara Valley Water District for a "Water Quality Program Manager" who oversees and coordinates the Drinking Water Quality Improvement Program for the DHS.

Recommendation: It is recommended to approve as budgeted.

Vote-Only Issue 3: Capacity Development for Small Water Systems

Description: The DHS requests an increase of $400,000 (Water System Reliability Account Funds) to fund three contract positions for technical assistance for the Capacity Development Program within the Safe Drinking Water State Revolving Fund Program (SDWSRF Program). According to the DHS, there are presently two DHS positions used for the Capacity Development Program and more resources are needed to meet workload demands.

There are about 5,000 Small Drinking Water systems in California that serve less than 1,000 persons. Without additional support, the DHS states that many of these systems would not be able to comply with the numerous and technically complex federal and state requirements that are necessary to secure funding to achieve a safe drinking water supply.

Among other things the $400,000 in contract positions would be used to do the following:

- Provide technical assistance to Small Water Systems for capacity development including conducting physical, operational, managerial, and financial assessments;
- Assist Small Water Systems to obtain funding for infrastructure improvements;
- Provide guidance to document compliance with CEQA;
- Assist in completing operational plans and emergency response plans;
- Coordinate co-funding projects with other funding agencies;
- Provide technical information to various stakeholders; and
- Assist in consolidating Small Water Systems into more viable systems.

In discussions with the DHS they note that if an interagency agreement cannot be completed for the work, they *may* need to proceed with a Request for Application process and competitively bid for a contract.

Recommendation: In order to avoid any potential legal issues regarding the use of state staff, it is recommended to adopt Budget Bill Language which enables the DHS to use these funds only for an interagency agreement, and not for contract staff. The recommended Budget Bill Language is as follows:

> Of the amount appropriated in this Item, up to $400,000 shall be used for an interagency-agreement to conduct work related to small drinking water systems. The funds shall not be used for any other purpose.

4280 Managed Risk Medical Insurance Board

Vote-Only Issue 4: Proposal to Re-Establish Outreach Activities

Description: The budget proposes a total increase of $14.5 million ($6 million General Fund, $5.8 million federal funds, and $2.7 million in Reimbursements) to re-establish certain outreach activities to improve enrollment in both the HFP and Medi-Cal for Children programs. Of this amount, an increase of $263,000 ($92,000 General Fund) is requested to fund three new positions (one Office Technician, one Associate Governmental Program Analyst, and one Staff Services Manager II) is proposed.

Recommendation: It is recommended to approve the proposal but with *one* change.

It is recommended to approve the outreach funds but to downgrade the Staff Services Manager II position to a Staff Services Manager I for savings of $7,900 ($2,780 General Fund).

Vote-Only Issue 5: Healthy Kids Program "Buy-In"

Description: The budget proposes (1) an increase of $261,000 ($91,000 Proposition 10 Funds and $170,000 federal funds) to fund three two-year limited-term positions at MRMIB, and (2) trailer bill legislation to develop an HFP "buy-in" option. The three positions include an Office Technician, a Research Program Specialist I, and a Staff Services Manager I. No General Fund support is requested.

Recommendation: It is recommended to approve the budget and trailer bill legislation as proposed.

5180 Department of Social Services (DSS)

Vote-Only Issue 6: LAO Foster Care Caseload Savings

Description: The LAO recommends the following adjustments in the Foster Care program, due to revised estimates that reflect recent caseload trends:

- $2.3 million General Fund savings in Foster Care county administration in 2005-06.
- $10 million General Fund savings in Foster Care grants in 2004-05.
- $20.8 million General Fund savings in Foster Care grants in 2005-06.

Recommendation: 1) Approve LAO savings of $30.8 million General Fund for Foster Care grants, and 2) Recognize Foster Care county administration savings of $2.3 million General Fund and reinvest that savings back into Foster Care administration, as counties have not received cost of doing business adjustments for a number of years.

Vote-Only Issue 7: Child Welfare Services Penalty Pass-Through

Description: The Governor's Budget proposes legislation to allow the state to pass on to counties penalties associated with California being out of compliance with federal or state law regarding Child Welfare Services (CWS). The Governor's Budget does not reflect any savings associated with this proposal.

Recommendation: Due to the need to maintain a collaborative relationship between the state and counties and continue the CWS improvements currently underway, and to prevent the reduction of resources for county child welfare services, staff recommends that the proposed trailer bill language be rejected.

Vote-Only Issue 8: Employment Training Fund Adjustment

Description: A spring finance letter requests a General Fund reduction of $391,000 and an Employment Training Fund increase of $391,000, to reflect revised workers' compensation savings. Control Section 6.60 in the 2004 Budget Act required that savings up to $4,430,000 be transferred to the General Fund and used in lieu of Employment Training Funds in the Department of Social Services' local assistance programs.

Recommendation: Approve the requested decrease of $391,000 in Item 5180-101-0001 and increase of $391,000 in Item 5180-101-0514. The requested adjustments for the Employment Development Department (org 7100) will be heard in Budget Subcommittee No. 5.

4130 Health and Human Services Data Center (HHSDC)
0530 Health and Human Services Agency (HHSA)

Vote-Only Issue 9: Case Management Information and Payrolling System (CMIPS) Budget Bill Language

Description: The Administration requests approval of amendments to budget bill language for development of a replacement system for CMIPS, known as CMIPS II. Counties use CMIPS for In-Home Supportive Services (IHSS) case management and payrolling functions.

The Administration proposes to replace the existing Provision 2 in Item 0530-001-0632 with the following:

(2) Notwithstanding any other provision of law, upon request of the Health and Human Services Agency, the Department of Finance may augment the amount available for expenditure in this item to pay for new contract costs for the In-Home Supportive Services/Case Management Payrolling System. The augmentation may be made no sooner than 30 days after notification in writing of the committee in each house of the Legislature that considers appropriations and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee may in each instance determine. The amount of funds augmented pursuant to the authority of this provision shall be consistent with the amount approved by the Department of Finance based on its review and approval of the new contract and Special Project Report, or equivalent document to be submitted at the conclusion of procurement activities.

Recommendation: Adopt proposed amendments to Provision 2 of Item 0530-001-0632.

Vote-Only Issue 10: CWS/CMS System Performance

Description: The budget requests 20.0 positions and $2.0 million to reflect the transfer of the CWS/CMS application from Colorado to the newly-proposed state Department of Technology Services ("DTS," formerly the HHSDC), located in Sacramento. This transfer is part of the CWS/CMS Go Forward plan. The County Welfare Directors Association has requested that CWS/CMS performance commitments be established to ensure system reliability during and after the transition to DTS. The transfer to DTS is scheduled to be completed by January 2006.

Recommendation: Adopt placeholder trailer bill language requiring the establishment of performance standards for both the CWS/CMS application maintenance and hosting.

5175 Department of Child Support Services (DCSS)

Vote-Only Issue 11: Local Child Support Funding

Description: The Governor's Budget proposes to continue holding local child support funding flat at $710 million ($194 million General Fund) in 2005-06. The relationship between local funding and collections was discussed in last year's budget hearings, but is still not entirely clear. The Legislative Analyst's Office recommends that the department lead a workgroup to develop a consistent local administrative cost reporting methodology. The Child Support Directors Association suggests that an administrative cost methodology be developed by January 2006.

Recommendation: Adopt supplemental report language to require that the DCSS lead a workgroup and submit a report to the Legislature by January 10, 2006 with recommendations for a consistent statewide LCSA cost reporting methodology. The language is as follows:

> The Department of Child Support Services shall report to the Legislature on how local child support agency costs should be classified as program costs or administrative costs. In developing this report, the Department should consult with stakeholders including, but not limited to, the Child Support Directors Association of California; local child support agency directors (or their designees) from at least one small, medium, large, and regional local child support agency; the Department of Finance; the Legislative Analyst's Office; and legislative staff from both caucuses of the Senate and the Assembly. The report should examine the feasibility of imposing a cap on administrative expenses for the 2006-07 budget based on the new definitions of administrative costs. To the extent that counties provide sufficient information, the report should include a county-by-county listing of program and administrative expenditures for each county based on the definitions contained in the report. The report shall be submitted to the Legislature no later than January 10, 2006.

Discussion Agenda

4130 Health and Human Services Data Center (HHSDC)
0530 Health and Human Services Agency (HHSA)

HHSDC Issue 1: Transfer Automation Projects to HHS Agency – Information Only

Description: The Governor's Budget proposed to transfer the HHSDC Systems Management Services (including all ten automation projects) to the Health and Human Services Agency (HHS Agency), and rename Systems Management Services as the Office of System Integration (OSI).

Background: Effective July 1, 2005, the Governor's Budget proposes to eliminate the HHSDC and consolidate the HHSDC Operations component and the Teale Data Center into the newly proposed Department of Technology Services. This consolidation proposal is in response to Legislative direction in the Budget Act 2003 to consolidate data center activities. A Governor's Reorganization Plan is pending to implement this consolidation.

Due to concerns about the high level of oversight needed to successfully implement and maintain large automation projects, the Administration proposes to transfer the Systems Management Services program to the HHS Agency. This component includes nine projects sponsored by DSS, and one project sponsored by the Employment Development Department. The proposal would shift 151.8 positions and $203,170,000 from HHSDC Systems Management Services for project management and 24.0 positions and $3,909,000 from HHSDC Operations for administrative support to the HHS Agency.

The Administration indicates that the statutory responsibility for the HHSDC Director's role would be assumed by the Director of OSI, as it pertains to system integration projects. The Director of OSI, with a reporting relationship to the Agency (specifically through the Agency Information Officer), would be responsible for project outcomes in compliance with the State Administrative Manual (SAM) and control agency requirements. The Administration indicates that the administrative overhead charged to the projects would not change.

The Administration indicates that the OSI would be established in a similar fashion as the California Office of HIPAA Implementation (CalOHI). The Director of OSI would be appointed by, and serve at the pleasure of, the Agency Secretary, similar to the Director of CalOHI.

Currently, the Director of HHSDC signs contracts, with the Agency also signing, when required by SAM or control agency requirements. The Administration proposes that the Director of OSI would perform the same duties and functions and have the same authority as the Director of HHSDC regarding OSI contracts.

The LAO recommends that all DSS-sponsored projects be placed in DSS, as DSS should be held accountable for the projects' success. The LAO also notes that agencies are designed to provide policy direction and oversight rather than carry out day-to-day operational responsibilities.

Questions:

1. HHS Agency, who in HHS Agency would be accountable for project activities and outcomes under this proposal?

2. Please provide the proposed new organizational chart for HHS Agency.

5175 Department of Child Support Services (DCSS)

DCSS Issue 1: Child Support Full Collections Program Transfer

Description: The Administration requests the transfer of the Child Support Full Collections Program from the Franchise Tax Board (FTB) to the DCSS, as authorized by AB 2358 (Steinberg) (Chapter 806, Statutes of 2004). This transfer would shift 168.5 positions and $12.4 million ($5.5 million General Fund) from the FTB to the DCSS.

Background: The Child Support Full Collection Program locates non-custodial parents who are delinquent in their child support payments and locates and intercepts the assets of these individuals.

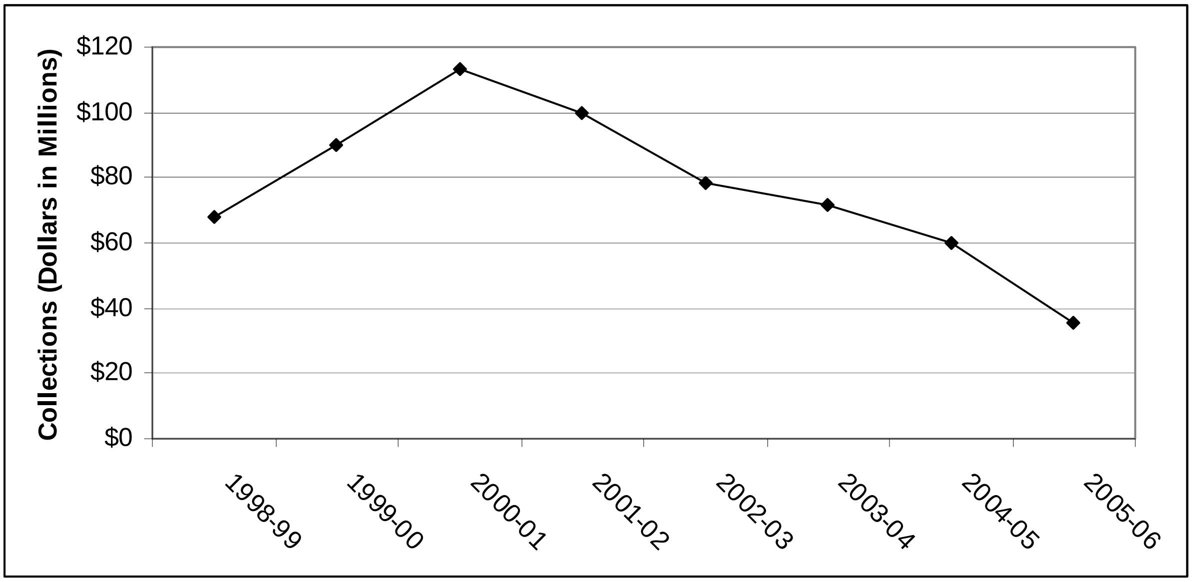
Chapter 806, Statutes of 2004 (AB 2358, Steinberg), requires the DCSS to assume responsibility for collection of child support delinquencies and the Financial Institution Data Match System. This transfer of responsibilities is necessary for the state to receive federal certification of the California Child Support Automation System (CCSAS), and discontinue federal penalties that are currently $218 million in Federal Fiscal Year 2005.

Figure 1: Proposed DCSS and FTB Positions

	2004-05			**2005-06**		
	FTB	**DCSS**	**Total**	**FTB**	**DCSS**	**Total**
CCSAS Positions	135.0	102.5	**237.5**	151.0	138.5	**289.5**
Child Support Full Collections Program	188.0	0.0	**188.0**	19.5*	168.5	**188.0**
Other Child Support Functions	0.0	233.6	**233.6**	0.0	208.1	**208.1**
FTB Non-Child Support Functions	5,255.6	0.0	**5,255.6**	5,269.7	0.0	**5,269.7**
Total Department	5,578.6	336.1	**5,914.7**	5,440.2	515.1	**5,955.3**

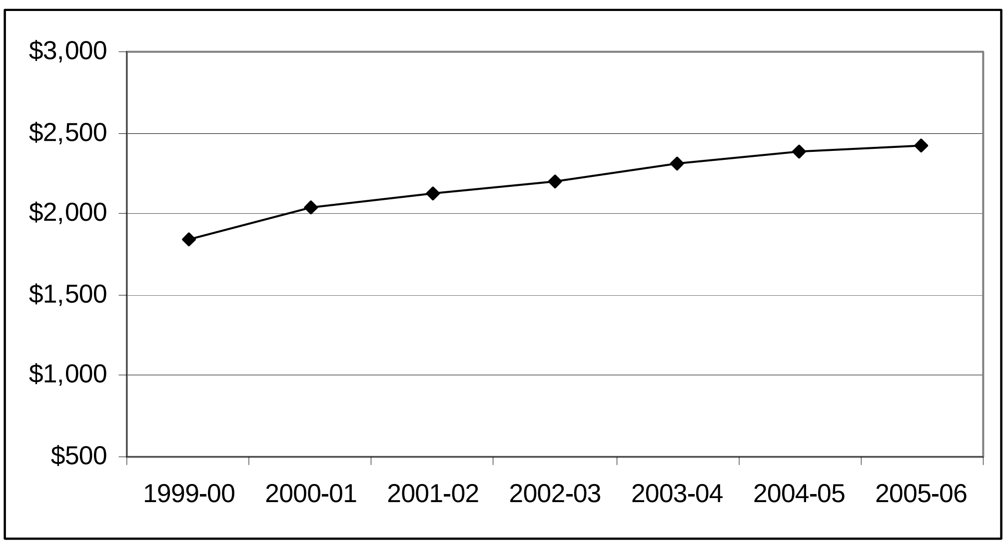
* The department proposes to maintain 19.5 administrative positions in the FTB that support the Full Collections program. These administrative positions performance cashiering, accounting, financial institution data exchange, information technology, call center, and administrative support services. The department indicates that many of these functions will be integrated into CCSAS once that system in implemented. Both the 168.5 positions proposed for transfer and the 19.5 remaining FTB positions would continue to be co-located.

Figure 2: FTB Non-Tax Debt Collections



The department indicates that overall, collections reported by the Full Collections Program (FCP) have declined because local child support agencies have increased their wage attachment efforts. The wage attachment collections formerly reported through the FCP are now captured as basic collections under the Child Support Program Collections. Please note that overall revenue collected by wage levies for Child Support for FTB and the counties has not declined.

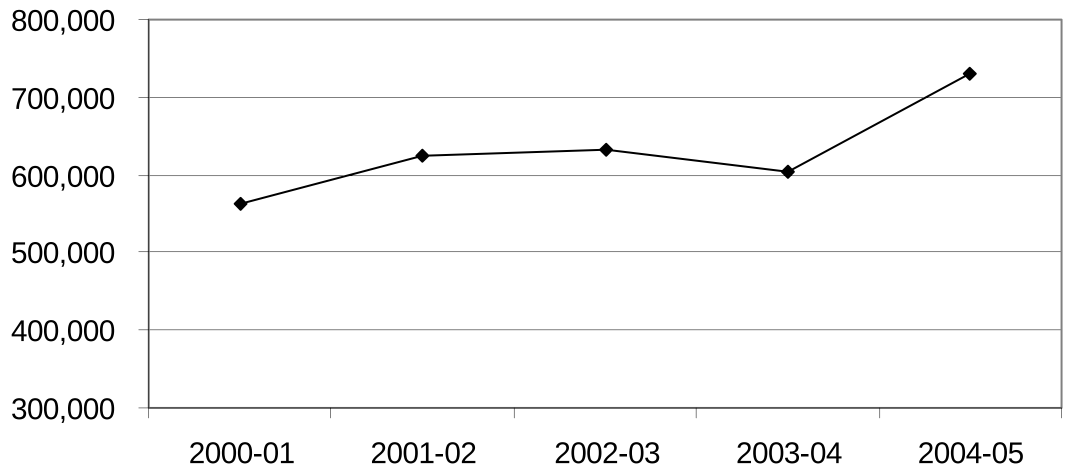
Figure 3: Total Child Support Collections (dollars in millions)



However, the department indicates that FCP workload has not had a corresponding decline, due to additional workload established by provisions in the 2003 Budget Act trailer bill (AB 1752). These provisions expanded FCP's asset seizure authority and increased case inventories.

Furthermore, non-wage attachment collections at FCP have grown over the last few years due to these new mandates.

Figure 4: FTB Full Collections Program Case Inventory



Questions:

1. DCSS/FTB, please present the proposal. Why have collections recovered by these staff declined?

Recommendation: Adopt the spring finance letter and add placeholder budget bill language to have the DCSS report to the Legislature on the activities and cost-effectiveness of the remaining positions by January 10, 2006.

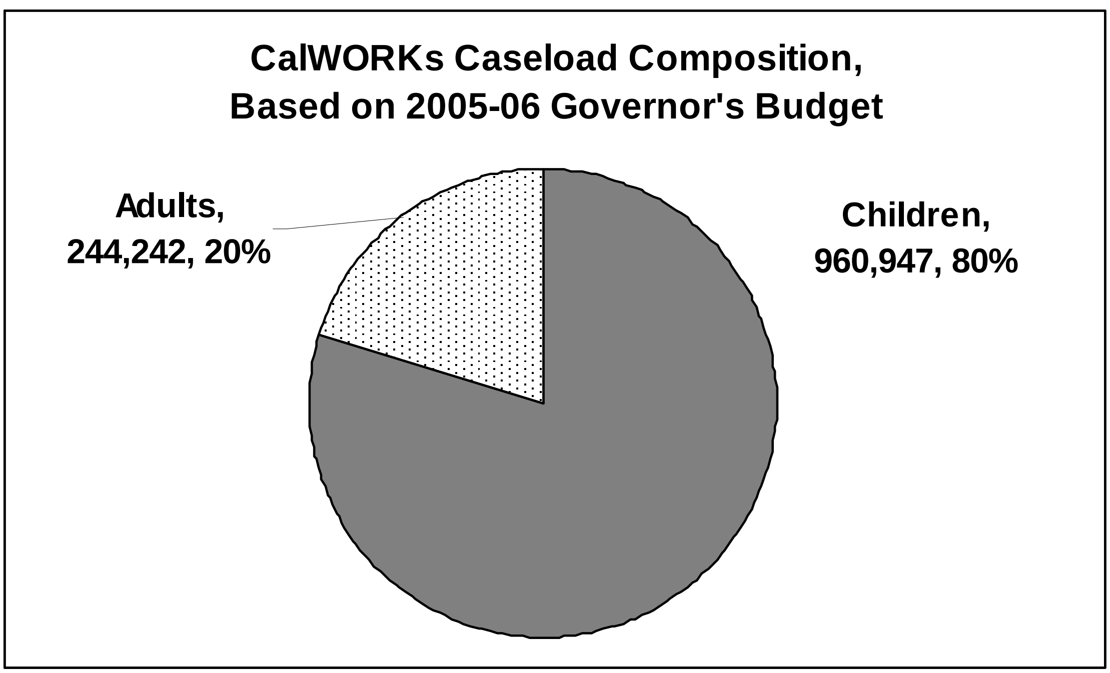
5180 Department of Social Services (DSS)

CalWORKs Program Description. The California Work Opportunity and Responsibility to Kids (CalWORKs) program provides cash benefits and welfare-to-work services to low-income children and their parents or caretaker relatives. The average family of three must have an annual net income below $12,389, or 77 percent of the federal poverty level (FPL), in a low-cost county to be eligible for CalWORKs. A family of three in a high cost county must have income below 81 percent of the FPL to be eligible for CalWORKs. Parents are required to work or participate in work-related activities for at least 32 hours per week, and income above $225 per month offsets a portion of the grant. Adults have a lifetime limit of five years (60 months) in CalWORKs.

Enrollment Summary. After peaking in March of 1995, CalWORKs enrollment dropped by 48 percent through 2004. Enrollment decreased by 33 percent since CalWORKs replaced the former Aid to Families with Dependent Children (AFDC) program in 1998. The caseload decline is due to a combination of demographic trends (such as decreasing birth rates for young women), California's economic expansion, and full implementation of welfare reform. After years of declines, enrollment bottomed out in 2003-04, and is projected to increase by 1.9 percent in 2004-05.

The budget proposes significant reductions in the CalWORKs program, resulting in a caseload decrease of 0.8 percent below the current year. The department estimates CalWORKs average monthly caseload will be 472,786 families in 2005-06, which includes almost 961,000 children (see Figure 3 below). Without the proposed reductions, average monthly enrollment would have been 486,425 families in 2005-06.

Figure 5



CalWORKs Funding Summary: CalWORKs is funded through an annual federal Temporary Assistance for Needy Families (TANF) block grant of $3.7 billion, plus $2.7 billion in state funds to meet a federal Maintenance of Effort (MOE) requirement. The budget proposes total TANF/MOE funding of $5.9 billion ($4.7 billion of which will be spent on the CalWORKs program and $1.2 billion to support non-CalWORKs federally allowable activities).

The Governor's Budget reflects funding for CalWORKs as follows:

- **2005-06:** $4.75 billion total
  - $2.65 billion federal TANF
  - $1.96 billion General Fund MOE
  - $153 million county funding MOE

- **2004-05:** $5.28 billion total
  - $2.96 billion federal TANF
  - $2.17 billion General Fund MOE
  - $144 million county funding MOE

The proposed 2005-06 funding level constitutes a $582 million, or more than 10 percent decrease in CalWORKs expenditures from the current year.

- **Reduce CalWORKs Grants by 6.5 percent.** The budget proposes to reduce CalWORKs grants by approximately 6.5 percent, resulting in savings of $212 million.

- **Eliminate CalWORKs Cost of Living Adjustment (COLA).** The budget proposes to suspend the July 2005 COLA, and permanently suspend all future CalWORKs COLAs, resulting in savings of $143 million.

- **Reduce Earned Income Disregard.** The budget proposes to reduce the Earned Income Disregard for CalWORKs families, resulting in $82 million savings.

- **Child Care Reform.** The budget proposes to reduce license-exempt child care reimbursement levels, and establish a tiered reimbursement structure for all child care providers, resulting in savings of $61 million in the DSS, and $53 million Prop 98 savings in the California Department of Education (CDE).

- **Reduce Employment Services Funding.** The budget proposes to eliminate $50 million in 2005-06 that was included in the 2004 Budget Act for CalWORKs employment services.

- **County Pay for Performance Proposal.** The budget proposes to tie county administration funding to CalWORKs client work participation rates, for projected savings of $22 million.

- **Increase Sanctions and Work Requirements.** The budget proposes to expand the CalWORKs work participation reforms based a pending evaluation of CalWORKs sanction policies, for estimated savings of $12 million.

DSS Issue 1: Federal Reauthorization of Temporary Assistance to Needy Families (TANF) Program

Description: The federal Temporary Assistance to Needy Families (TANF) program provides federal funding for the state's CalWORKs program, as well as child care and other programs to help low-income families. Current federal law authorizes TANF through June 30, 2005. Legislation is pending in Congress to revise and reauthorize the TANF program and child care funding. Federal approval of TANF reauthorization before the Congressional Budget Reconciliation process may avoid reductions in TANF program funding.

Background: The US Senate Finance Committee recently adopted S. 667, a bipartisan compromise TANF reauthorization bill known as the Personal Responsibility and Individual Development for Everyone (PRIDE) bill. The House of Representatives is considering TANF reauthorization under HR 240.

The Senate bill generally provides more flexibility for state welfare-to-work programs than the House bill. In particular, the Senate bill includes the incentive for program improvement, which allows states that are improving their work participation rates and have a corrective compliance plan to avoid the financial penalties they would otherwise face if they fall short in their efforts to meet the new higher standards in the bill. While it raises the bar for states, the work rate structure of the bill provides states with flexibility. This includes tiered work hours, an employment credit to reward states that succeed in moving people into the workplace, reduced hours for mothers with children under six, and credit for part-time work.

In addition, the Senate bill provides a greater increase in child care funding ($6 billion over five years) than the House bill ($1 billion).

CalWORKs program changes approved in the 2004 Budget Act trailer bill, SB 1104, reflect elements of both the House and Senate versions of TANF reauthorization. Implementation of the reforms in SB 1104 has strengthened California's ability to meet the new requirements of either version of TANF reauthorization.

Questions:

1. LAO, please provide a brief description of the status of TANF reauthorization.

2. DSS, what efforts has the Administration made at the federal level to support the Senate version of TANF reauthorization?

DSS Issue 2: CalWORKs Employment Services Funding

Description: The Governor's Budget proposes a reduction of $50 million for CalWORKs employment services.

Background: County welfare departments are responsible for the local development and implementation of CalWORKs. They receive a block grant from the state and are given substantial flexibility to design and carry out the CalWORKs program within the state and federal program guidelines. Counties develop and implement employment preparation and family support programs. County staff members determine eligibility for the program, provide case management services, develop welfare-to-work plans, and provide referrals to services such as child care and transportation.

In the 2004 Budget Act the Legislature restored $50 million in CalWORKs employment services funding to counties to address an overestimation of savings in various CalWORKs program changes. This was intended to help counties maintain their current welfare-to-work infrastructures.

Questions:

1. DSS, please present the proposed reduction.

2. DSS, how would the proposed employment services funding reduction affect counties' ability to improve their work participation rates?

DSS Issue 3: CalWORKs Prospective Budgeting

Description: The Governor's Budget reflects $185 million ($181 million TANF/General Fund) in grant costs and $186 million ($146 million TANF/General Fund) in administrative savings in 2005-06 due to implementation of prospective budgeting/quarterly reporting for the CalWORKs, Food Stamps, California Food Assistance Program, and Refugee Assistance programs. The California Welfare Directors Association indicates that actual savings as result of prospective budgeting is significantly less than the amount estimated by the department.

Background: The 2002 Budget trailer bill authorized the replacement of the Retrospective Budgeting/Monthly Reporting system with the Prospective Budgeting/Quarterly Reporting system. This change was intended to reduce the Food Stamp error rate. Counties transitioned to prospective budgeting between November 2003 and June 2004.

2004-05 Prospective Budgeting Impact, per November 2004 Estimate:
- Grant Costs: $186 million ($181 million TANF/General Fund)
- Admin Savings: $113 million ($87 million TANF/General Fund)

2005-06 Prospective Budgeting Impact, per 2005-06 Governor's Budget:
- Grant Costs: $185 million ($181 million TANF/General Fund)
- Admin Savings: $186 million ($146 million TANF/General Fund)

The California Welfare Directors Association indicates that administrative savings are overstated because:

- County time studies conducted before Quarterly Reporting was implemented indicate that much less administrative time is devoted to processing monthly reports than the department assumes in its estimate. County time studies after Quarterly Reporting was implemented support this assumption.

- Department assumptions regarding the cost per hour of staff time after Quarterly Reporting was implemented understate county costs. For example, counties may not be able to reduce facility, supervisor, and clerical costs at the same rate as line staff.

- County data suggests much higher costs to process mid-quarter reports than assumed by the department. Although counties and the department have similar assumptions regarding the number of mid-quarter reports to process, they do not assume the same costs/person to process the reports.

Questions:

1. DSS, please present the proposed costs and savings for prospective budgeting.

DSS Issue 4: CalWORKs Sanction Report

Description: The 2004 Budget Act human services trailer bill (SB 1104) required that DSS examine the CalWORKs sanction policy, develop recommendations to improve the effectiveness of sanctions, and report to the Legislature by April 1, 2005. This report has not yet been submitted. The Governor's Budget includes $12 million savings for anticipated grant savings as a result of strengthening the CalWORKs sanction process for non-compliant participants.

Background: SB 1104, the 2004 Budget Act human services trailer bill, included the following provisions:

Welfare and Institutions Code 11486.3.

> (a) The department, in consultation with system stakeholders, including county welfare departments, shall examine the CalWORKs sanction policy, its implementation, and effect on work participation, including but not limited to all of the following:
> (1) The characteristics of the persons being sanctioned.
> (2) The reason participants are being sanctioned.
> (3) The length of time in sanctioned status.
> (4) Positive and negative sanction outcomes.
> (5) County variances in sanction policies, rates, and outcomes.
> (6) The relationship between sanction rates and work participation.
> (7) The impact of sanctions on families and their ability to become self-sufficient.
> (8) Adequacy of procedures to resolve noncompliance prior to the implementation of sanctions.

(b) The department shall develop recommendations to improve the effectiveness of sanctions in achieving participant compliance, assisting families in becoming self-sufficient, and other desired program outcomes.
(c) The department shall report its findings and recommendations to the appropriate fiscal and policy committees of the Legislature by April 1, 2005.

Questions:

1. DSS, what is the status of the report?

DSS Issue 5: CalWORKs Pay for Performance Proposal

Description: The Governor's Budget proposes trailer bill language and $22.2 million savings for a "pay for performance" county incentive proposal, intended to increase the state's work participation rate.

Background:

- **Proposal:** The Governor's Budget proposes to tie CalWORKs county administration funding to CalWORKs client work participation outcomes. County allocations for 2006-07 would be adjusted based on employment and work participation rates in 2005-06. The Administration estimates that this proposal would result in savings of $22 million, due to lower grant costs as clients increase earnings and the number of hours worked.

  This proposal would set aside five percent of the non-child care CalWORKs Single Allocation and award this funding to counties that meet certain performance goals during the prior fiscal year. Counties use the CalWORKs Single Allocation to pay for Stage 1 Child Care, employment services and eligibility expenses. With this proposal, counties that meet certain goals would receive the full amount of their Single Allocation, while counties that fail could receive only 95 percent of that amount. In certain cases, counties that exceed their goals could receive a bonus, so their final allocation could be up to 105 percent of their single allocation. This proposal would be a three-year pilot beginning with the fiscal year 2006-07 single allocation.

- **Work Participation Rate:** The Administration indicates that this proposal is intended to improve the state's work participation rate and avoid federal penalties under pending TANF reauthorization proposals. However, the department estimates that SB 1104 CalWORKs reforms from the 2004 budget trailer bill would increase the state's work participation rate by 10 percent. Based on this adjustment, under the Senate version of TANF reauthorization the state would likely avoid federal work participation rate sanctions through at least 2009, and under the House version the state would likely avoid sanctions through 2007.

Questions:

1. DSS, please present the pay for performance proposal.

5180 Department of Social Services (DSS)

CalWORKs Child Care Overview

California's subsidized child care system is primarily administered through the California Department of Education (CDE) and the Department of Social Services (DSS). A limited amount of child care is also provided through the California Community Colleges. Figure 6 summarizes the funding levels and estimated enrollment for each of the state's various child care programs as proposed by the Governor's Budget. Note that absent the Governor's Budget proposals, CalWORKs Stage 3 funding would be $335.6 million in 2005-06.

Figure 6 – Prepared by the Legislative Analyst's Office

California Child Care Programs

2005-06
(Dollars in Millions)

Program	State Control [a]	Estimated Enrollment	Governor's Budget
CalWORKs [b]			
Stage 1[c]	DSS	98,000	$498.8
Stage 2[c]	SDE	94,000	575.4
Community colleges (Stage 2)	CCC	3,000	15.0
Stage 3[d]	SDE	14,500	87.6
Subtotals		(209,900)	($1,167.8)
Non-CalWORKs[b,e]			
General child care	SDE	88,000	$632.1
Alternative Payment programs	SDE	71,000	430.0
Preschool	SDE	101,000	325.4
Other	SDE	18,700	54.2
Subtotals		(278,800)	($1,441.6)
Totals—All Programs		**488,700**	**$2,609.4**

a Department of Social Services, State Department of Education, and California Community Colleges.

b California Work Opportunity and Responsibility to Kids.

c Includes holdback of reserve funding which will be allocated during 2005-06 based on actual need.

d Significantly reduced due to Governor's reform proposal to move current Stage 3 recipients to general child care.

e Does not include after school care, which has a budget of $250 million and is estimated to provide care for 249,500 school-aged children.

As Figure 6 shows, the budget proposes about $2.6 billion ($1.3 billion General Fund) for the state's child care programs. This is an increase of about $33 million from the estimated current-year level of funding for these programs. About $1.2 billion (46 percent) of total child care funding is estimated to be spent on child care for current or former California Work Opportunity and Responsibility to Kids (CalWORKs) recipients. Virtually all of the remainder is spent on child care for non-CalWORKs low-income families. The total proposed spending level will fund child care for approximately 488,700 children statewide in the budget year.

Families receive subsidized child care in one of two ways: either by (1) receiving vouchers from county welfare departments or Alternative Payment (AP) program providers, or (2) being assigned space in child care or preschool centers under contract with CDE.

Eligibility Depends On Family Income and CalWORKs Participation. CalWORKs and non-CalWORKs families have differential access to child care in the current system. While CalWORKs families are guaranteed access to child care, eligible non-CalWORKs families are not guaranteed access, are often subject to waiting lists, and many never receive subsidized care, depending on their income.

CalWORKs Guarantees Families Child Care. State law requires that adequate child care be available to CalWORKs recipients receiving cash aid in order to meet their program participation requirements (a combination of work and/or training activities). If child care is not available, then the recipient does not have to participate in CalWORKs activities for the required number of hours until child care becomes available. The CalWORKs child care is delivered in three stages:

- **Stage 1.** Stage 1 is administered by county welfare departments (CWDs) and begins when a participant enters the CalWORKs program. While some CWDs oversee Stage 1 themselves, 32 contract with AP providers to administer Stage 1. In this stage, CWDs or APs refer families to resource and referral agencies to assist them with finding child care providers. The CWDs or APs then pay providers directly for child care services.

- **Stage 2.** The CWDs transfer families to Stage 2 when the county determines that participants' situations become "stable." In some counties, this means that a recipient has a welfare-to-work plan or employment, and has a child care arrangement that allows the recipient to fulfill his or her CalWORKs obligations. In other counties, stable means that the recipient is off aid altogether. Stage 2 is administered by CDE through a voucher-based program. Participants can stay in Stage 2 while they are in CalWORKs and for two years after the family stops receiving a CalWORKs grant.

- **Stage 3.** In order to provide continuing child care for former CalWORKs recipients who reach the end of their two-year time limit in Stage 2, the Legislature created Stage 3 in 1997. Recipients timing out of Stage 2 are eligible for Stage 3 if they have been unable to find other subsidized child care. Assuming funding is available, former CalWORKs recipients may receive Stage 3 child care as long as their income remains below 75 percent of the state median income level and their children are below age 13.

DSS Issue 6: Governor's Budget Child Care Reforms

Description: The Administration proposes a number of reforms to the state's subsidized child care programs that would result in a total of $164.2 million General Fund savings, including $62.6 million in the DSS CalWORKs budget. The proposals that would most directly affect CalWORKs families are the tiered reimbursement rates and the one-year limit on Stage 3 child care.

Background: The Governor's Budget includes a number of child care reforms.

- **Stage 3 Child Care Reform.** Permanently expand the general Alternative Payment (AP) program by shifting all current CalWORKs Stage 3 child care recipients, and the associated funding, to the AP program, limiting guaranteed child care to a maximum of eight years and limiting Stage 3 to one year. No 2005-06 savings.

- **Centralized Waiting Lists.** Require counties to create a two-tiered waiting list for all subsidized child care: the first tier for families below 138 percent of the federal poverty level (FPL) and the second tier for families above that level. $7.9 million General Fund cost in 2005-06.

- **Tiered Reimbursement Rates.** Reduce the amount the state is willing to pay license-exempt providers. Further, create fiscal incentives for all providers to raise the quality of the care they provide and encouraging additional training. $140.1 million savings (including $60.8 million DSS savings) in 2005-06.

- **Alternate Rate Setting Mechanism.** Adopt regulations establishing an alternative rate setting mechanism for providers that only serve subsidized families. These regulations have been suspended for the last two years. $8.2 million savings in (including $1.8 million DSS savings) in 2005-06.

- **Rebenching Child Care Eligibility.** Shift eligibility determination to federal poverty level measures rather than the current CDE state median income calculations. No 2005-06 savings.

- **After School Care for 11- and 12-Year-Olds.** Designate after school care as the default placement and require parents to submit a reason in writing that they cannot use the available after school program. $23.8 million savings in 2005-06.

Stage 3 Child Care Reform Proposal

Under current law, current and former CalWORKs families are guaranteed child care as long as they meet eligibility requirements and have a need for child care. The Governor proposes shifting all current CalWORKs Stage 3 families (former CalWORKs recipients) into the AP program along with the associated funding and ending the child care guarantee for CalWORKs families. All families who are receiving Stage 3 child care as of June 30, 2005 would in the future be served by the non-CalWORKs AP voucher program. (Local AP providers assist families in locating child care and distribute vouchers to those families.) This shift would permanently expand the AP program. There would be no impact on families currently receiving service as their child care guarantee would not change. However, any families coming into Stage 3 CalWORKs after this point would be limited to one or two years.

Under this proposal, families who leave CalWORKs after June 30, 2005 would be allowed two years of transitional child care in Stages 1 and 2, and one year in Stage 3. In other words, they would be guaranteed child care for three years after leaving aid. If a family is currently off aid and in Stage 1 or Stage 2, the family would receive two years of Stage 3 child care while they are on the waiting list for a child care slot in the AP child care program. These families' child care guarantee would be for a maximum of four years after leaving aid, depending on the time they have left in Stage 2.

Interaction Between Stage 3 Proposal and Centralized Waiting List Proposal

The Centralized Waiting List proposal allows all CalWORKs families to place their names on the waiting list as soon as they have earned income. Therefore, CalWORKs families would not have to wait until leaving aid before they can compete for SDE's subsidized child care. However, they would need to wait until they have earned income, which would be problematic for the families nearing their CalWORKs time limits who have been participating in welfare-to-work activities other than employment (such as community service or vocational education).

The LAO recommends that CalWORKs families be placed on the waiting list based on the date they first had earned income, in order to avoid placing existing CalWORKs families at the bottom of the waiting lists.

Tiered Reimbursement Rate Proposal

The Governor proposes to implement a tiered reimbursement rate structure for the voucher child care programs. Tiered reimbursement for child care provides differential reimbursement rates that encourage providers to improve program quality by obtaining additional training and education and improving outcomes as measured by independent standards of quality.

The Governor's proposal creates a five-tiered child care reimbursement rate structure that reimburses voucher providers from 55 percent to 100 percent of the current maximum rates, depending on independent quality ratings, licensing, accreditation, education, and health and safety training. The proposal is summarized in Figures 7 and 8 below. The intent of the proposal is to provide higher reimbursement rates to providers that exhibit higher quality. Figures 7 and 8 show the reimbursement rates for three categories of care—license-exempt, family home care, and center-based care. The figures also show the education and training requirements for the various levels of rates under the Governor's proposal. For license-exempt care, there are two levels: license-exempt and license-exempt plus. The FCCHs and centers are rated according to a three-star system whereby the highest quality providers receive three stars and the lowest one star.

Figure 7 - LAO

Governor's Tiered Reimbursement Proposal For License-Exempt Providers

	Percent of FCCH[a] Maximum	Additional Requirements
License-exempt	55 percent	None.
License-exempt plus	60 percent	License-exempt training, assistant teacher permit, or heath and safety training.

a Family child care homes.

Figure 8 - LAO

Governor's Tiered Reimbursement Proposal For Licensed Providers

Star Rating	Maximum Rate	Additional Requirements	
		FCCHs[a]	Centers
*	75 percent of the 85^{th} percentile RMR.[b]	None.	None.
**	85 percent of the 85^{th} percentile RMR.[b]	Environmental rating scale average of 4 or associate teacher permit.	Environmental rating scale average of 4 or all teachers have teacher permit.
***	85^{th} percentile RMR.[b]	Environmental rating scale average of 5.5, teacher permit, associates degree, or accreditation.	Environmental rating scale average of 5.5, all teachers have bachelor's degree, or accreditation.

a Family child care homes.
b Regional Market Rate (RMR) survey of providers in the area offering the same type of child care. The RMR will vary by care type.

License-Exempt Rate Reduction. The Governor's entire 2005-06 savings estimate for the tiered reimbursement proposal is based on reductions to license-exempt care rates. Under the proposal, the rates of license-exempt care providers with no training would be cut to 60 percent of the 85^{th} percentile of the Regional Market Rate. This reduction would take effect on July 1, 2005. These providers would then have 180 days to obtain the specified training for the second reimbursement tier, license-exempt plus, or their rates will be further cut to 55 percent of the 85^{th} percentile.

License-exempt providers also would have the option to become licensed as FCCHs. If current license-exempt providers obtain the 15-hour health and safety training in order to meet the license-exempt plus rating, they will have completed the educational and training component of the FCCH licensing requirements. If licensed, providers would have their rates increased significantly, as shown in Figure 8.

Reimbursement Reforms for FCCH and Center-Based Providers Would Not Affect Rates for Two Years. Currently, FCCHs and centers are reimbursed up to the 85th percentile of the RMR. Under the Governor's proposal, providers' rates would be reduced starting in 2007-08 unless the providers demonstrated high program quality through (1) educational attainment, (2) program quality review, or (3) accreditation. Available data suggest that most providers would need to make significant investments to attain either a two-star or three-star rating.

Questions:

1. DOF, would reduced provider rates result in a reduction in the number of providers for CalWORKs families?

2. DSS, how would any/all of the child care reform proposals affect the state's CalWORKs work participation rate?

3. LAO, please present your recommendations to modify the Stage 3 Reform and Waiting List proposals.